

MONTEZUMA COMMUNITY SCHOOL DISTRICT

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2006

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Montezuma Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education		
(Before September 2005 Election)		
Gary Smith	President	2005
Mike Phillips	Vice President	2006
Greg Long	Board Member	2006
Scott Rinehart	Board Member (Resigned)	2007
Lois Evans	Board Member (Appointed)	2005
Pete Ross	Board Member	2007

Board of Education

(After September 2005 Election)

Greg Long	President	2006
Mike Phillips	Vice President	2006
Doug Johnston	Board Member	2007
Pete Ross	Board Member	2007
Doug Hoksbergen	Board Member	2008

School Officials

Bill Cox	Superintendent	2006
Barbara J. Albin	District Secretary/ Treasurer	2006
Randy DeGeest	District Attorney	2006

NOLTE, CORNMAN & JOHNSON P.C.
Certified Public Accountants
(a professional corporation)
117 West 3rd Street North, Newton, Iowa 50208-3040
Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the
Montezuma Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Montezuma Community School District, Montezuma, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Montezuma Community School District at June 30, 2006, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated August 8, 2006 on our consideration of Montezuma Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 12 and 35 through 36 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board.

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We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Montezuma Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for year ended June 30, 2005 (none of which are presented herein) and expressed an unqualified opinion on those financial statements. Another auditor previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the two years ended June 30, 2004 (none of which are presented herein) and expressed an unqualified opinion on those financial statements. Other supplementary information included in Schedules 1 through 5, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.


NOLTE, CORNMAN & JOHNSON, P.C.

August 8, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

Montezuma Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2006. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2006 FINANCIAL HIGHLIGHTS

- General Fund revenues decreased from \$4,625,425 in fiscal year 2005 to \$4,610,629 in fiscal year 2006, while General Fund expenditures increased from \$4,329,943 in fiscal 2005 to \$4,403,273 in fiscal 2006. This resulted in an increase in the District's General Fund balance from \$239,241 in fiscal 2005 to \$446,544 in fiscal 2006.
- The decrease in General Fund revenues was attributable to a decrease in local tax revenues in fiscal 2006. The increase in expenditures was due primarily to an increase in the negotiated salary and benefits.
- Overall, the District increased net assets in the governmental activities by \$305,687, and increased in the business-type activities by \$34,139, respectively.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Montezuma Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Montezuma Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Montezuma Community School District acts solely as an agent or custodial for the benefit of those outside of the School District.

Notes to the financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor funds.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

Figure A-1
Montezuma Community School District Annual Financial Report

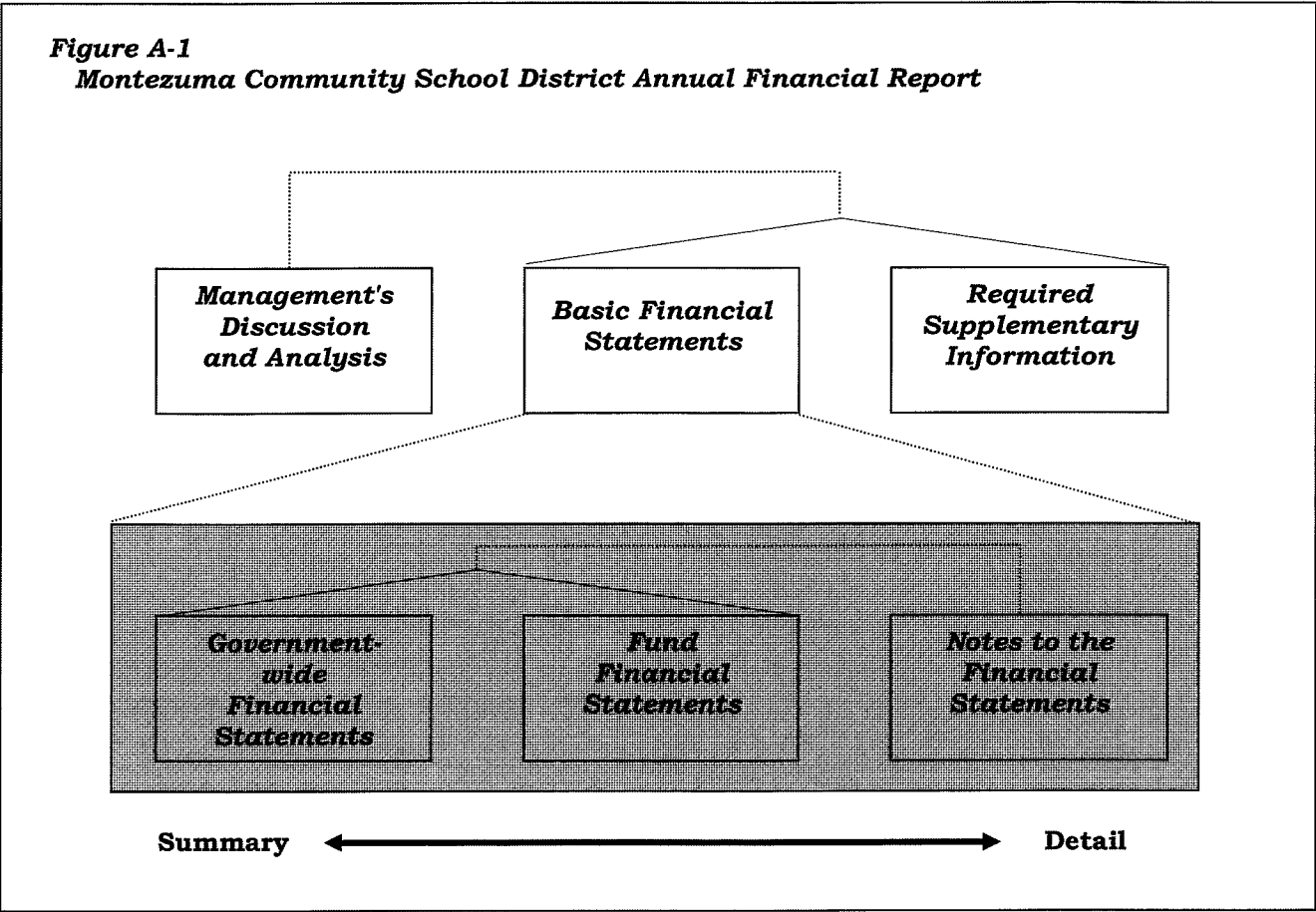


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2 Major Features of the Government-Wide and Fund Financial Statements				
	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses, e.g., food service	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of revenues, expenses and changes in net assets • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business-type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has three kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service Fund and Capital Projects Fund.

The required financial statements for the governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District currently has one Enterprise Fund, the School Nutrition Fund.

The required financial statements for the proprietary funds include a statement of net assets, a statement of revenues, expenses and changes in net assets and a statement of cash flows.

- 3) *Fiduciary funds:* The District is the trustee, or fiduciary, for assets that belong to others. These funds include Private-Purpose Trust and Agency funds.

- Private-Purpose Trust Fund – The District accounts for outside donations for scholarships for individual students in this fund.
- Agency Fund – These are funds through which the District administers and accounts for certain federal and/or state grants on behalf of other entities and the Empowerment Program, whereby the District acts as the fiscal agent.

The District is responsible for ensuring that the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the District-wide financial statements because it cannot use these assets to finance its operations.

The required financial statements for fiduciary funds include a statement of fiduciary net assets and a statement of changes in fiduciary net assets.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's total net assets at June 30, 2006 compared to June 30, 2005.

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities		Business-Type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2006	2005	2006	2005	2006	2005	2005-06
Current and other assets	\$ 4,661,412	4,477,384	11,241	4,452	4,672,653	4,481,836	4.26%
Capital assets	1,083,903	948,009	37,205	8,028	1,121,108	956,037	17.27%
Total assets	5,745,315	5,425,393	48,446	12,480	5,793,761	5,437,873	6.54%
Long-term obligations	55,036	120,123	0	0	55,036	120,123	-54.18%
Other liabilities	3,492,393	3,652,099	8,789	6,962	3,501,182	3,659,061	-4.31%
Total liabilities	3,547,429	3,772,222	8,789	6,962	3,556,218	3,779,184	-5.90%
Net assets:							
Invested in capital assets, net of related debt	1,083,903	948,009	37,205	8,028	1,121,108	956,037	17.27%
Restricted	505,256	357,393	0	0	505,256	357,393	41.37%
Unrestricted	608,727	347,769	2,452	(2,510)	611,179	345,259	77.02%
Total net assets	\$ 2,197,886	1,653,171	39,657	5,518	2,237,543	1,658,689	34.90%

The District's combined net assets increased by nearly 35% over the prior year. The largest portion of the District's net assets is the invested in capital assets (e.g., land, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased 41.37% compared to prior year.

Unrestricted net assets-the part of net assets that can be used to finance day-by-day operations without constraints established by debt covenants, enabling legislation or other legal requirements - increased 77.02% over the prior year.

Figure A-4 shows the changes in net assets for the years ended June 30, 2006 and 2005.

Figure A-4
Changes of Net Assets

	Governmental Activities		Business-Type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2006	2005	2006	2005	2006	2005	2005-06
Revenues:							
Program revenues:							
Charges for services	\$ 640,813	605,034	128,063	114,951	768,876	719,985	6.79%
Operating grants and contributions and restricted interest	527,410	477,354	106,566	88,394	633,976	565,748	12.06%
General revenues:							
Property tax	2,084,795	2,267,984	0	0	2,084,795	2,267,984	-8.08%
Local option sales and service tax	323,680	350,620	0	0	323,680	350,620	-7.68%
Unrestricted state grants	1,779,523	1,785,803	0	0	1,779,523	1,785,803	-0.35%
Other	105,301	25,415	8,645	3,472	113,946	28,887	294.45%
Total revenues	5,461,522	5,512,210	243,274	206,817	5,704,796	5,719,027	-0.25%
Program expenses:							
Governmental activities:							
Instructional	3,477,638	3,357,815	0	0	3,477,638	3,357,815	3.57%
Support services	1,101,291	1,173,464	0	0	1,101,291	1,173,464	-6.15%
Non-instructional programs	0	0	240,746	210,598	240,746	210,598	14.32%
Other expenses	337,878	314,610	0	0	337,878	314,610	7.40%
Total expenses	4,916,807	4,845,889	240,746	210,598	5,157,553	5,056,487	2.00%
Excess(deficiency) of revenues over(under) expenses before capital contributions	544,715	666,321	2,528	(3,781)	547,243	662,540	-17.40%
Capital contributions	0	0	31,611	0	31,611	0	100.00%
Change in net assets	544,715	666,321	34,139	(3,781)	578,854	662,540	-12.63%
Net assets beginning of year	1,653,171	986,850	5,518	9,299	1,658,689	996,149	66.51%
Net assets end of year	\$ 2,197,886	1,653,171	39,657	5,518	2,237,543	1,658,689	34.90%

In fiscal 2006, property tax and unrestricted state grants account for 70.8% of the revenue from governmental activities while charges for services and operating grants and contributions account for 96.4% of the revenue from business type activities.

The District's total revenues were approximately \$5.7 million of which \$5.5 million was for governmental activities and \$.2 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced a .25% decrease in revenues and a 2% increase in expenses. The increase in expenses was related to increases in the negotiated salary and benefits.

Governmental Activities

Revenues for governmental activities were \$5,461,522 and expenses were \$4,916,807.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services and other expenses.

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services	Net Cost of Services
Instruction	\$ 3,477,638	2,472,354
Support services	1,101,291	1,100,410
Other expenses	337,878	175,820
Totals	<u>\$ 4,916,807</u>	<u>3,748,584</u>

- The cost financed by users of the District's programs was \$640,813.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$527,410.
- The net cost of governmental activities was financed with \$2,084,795 in property tax, \$323,680 in local option sales and services tax, \$1,779,523 in unrestricted state grants and \$52,967 in interest income.

Business-Type Activities

Revenues of the District's business-type activities were \$274,885 and expenses were \$240,746. The District's business-type activity is the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

INDIVIDUAL FUND ANALYSIS

As previously noted, the Montezuma Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported combined fund balances of \$979,621, above last year's ending fund balances of \$673,934.

Governmental Fund Highlights

- The District's General Fund financial position changed from \$239,241 to \$446,544. This was due to the controlled spending by the District. Despite the decrease in total revenues, the revenues exceeded total expenditures allowing the increase in the fund balance.
- The District's Capital Projects Fund increased \$64,335, to an ending fund balance of \$292,099. This was the result of a decrease in total expenditures during the year.
- The District increased its tax levy which allowed the Management to improve from \$23,446 to \$62,689. The District was able to decrease the expenditures in this fund which is impressive due to the normal increases in insurance costs.

Proprietary Funds Highlights

The School Nutrition Fund net assets increased from \$5,518 at June 30, 2005 to \$39,657 at June 30, 2006, representing an increase of 619%. This increase was due to the capital contributions made from the Capital Projects fund during the year.

BUDGETARY HIGHLIGHTS

Over the course of the year, Montezuma Community School District amended its annual budget one time to reflect additional expenditures associated with increased benefits and anticipated repairs/renovations.

The District's revenues were \$166,014 more than budgeted revenues, a variance of 3%. The most significant variance resulted from the District receiving more in local sources than originally anticipated.

Total expenditures were less than budgeted, due primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2006, the District had invested \$1,121,108, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) More detailed information about capital assets is available in Note 6 to the financial statements. Depreciation expense for the year was \$118,123.

The original cost of the District's capital assets was \$4,136,646. Governmental funds account for \$4,017,671 with the remainder of \$118,975 in the Proprietary, School Nutrition Fund.

The largest percentage change in capital asset activity during the year occurred in the construction in progress category. The District's construction in progress decreased due to projects completed during the year.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental Activities		Business-Type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2006	2005	2006	2005	2006	2005	2005-06
Land	\$ 52,500	52,500	0	0	52,500	52,500	0.00%
Buildings	857,867	772,321	0	0	857,867	772,321	9.97%
Improvements other than buildings	40,330	40,900	0	0	40,330	40,900	-1.41%
Machinery and equipment	133,206	67,120	37,205	8,028	170,411	75,148	55.90%
Construction in progress	0	15,168	0	0	0	15,168	-100.00%
Total	\$ 1,083,903	948,009	37,205	8,028	1,121,108	956,037	14.72%

Long-Term Debt

At June 30, 2006, the District had \$55,036 in other long-term debt outstanding. This represents a decrease of 54.2% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 7 to the financial statements.

The District had total outstanding leases payable of \$22,041 at June 30, 2006.

The District had total outstanding early retirement payable from the Special Revenue, Management Fund of \$32,995 at June 30, 2006.

Figure A-7
Outstanding Long-Term Obligations

	Total School District		Total Change
	June 30,		June 30,
	2006	2005	2005-06
Note payable	\$ 0	21,491	-100.0%
Early retirement	32,995	40,956	-19.4%
Bus lease	22,041	32,422	-32.0%
Tractor lease	0	3,000	-100.0%
Track loan	0	22,254	-100.0%
Totals	\$ 55,036	120,123	-54.2%

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- Increases in health insurance premiums, along with salaries and benefits for the employees is always a concern for the District.
- Continued budget concerns at state level will affect future projections. The District has been forced to shift funding to property taxes.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Barbara Albin, District Board Secretary/Treasurer, Montezuma Community School District, 504 North 4th Street, Box 580, Montezuma, Iowa, 50171.

BASIC FINANCIAL STATEMENTS

MONTEZUMA COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2006

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and pooled investments:			
ISCAP(Note 5)	\$ 1,112,313	0	1,112,313
Other	1,265,808	3,206	1,269,014
Receivables:			
Property tax:			
Delinquent	29,120	0	29,120
Succeeding year	1,938,055	0	1,938,055
Income surtax	189,500	0	189,500
Accrued interest:			
ISCAP(Note 5)	11,300	0	11,300
Due from other governments	115,316	0	115,316
Inventories	0	8,035	8,035
Capital assets, net of accumulated depreciation(Note 6)	1,083,903	37,205	1,121,108
Total Assets	5,745,315	48,446	5,793,761
Liabilities			
Accounts payable	21,879	67	21,946
Due to other governments	4,110	0	4,110
Salaries and benefits payable	391,751	7,158	398,909
Accrued interest payable	102	0	102
ISCAP warrants payable(Note 5)	1,109,000	0	1,109,000
ISCAP interest payable(Note 5)	10,411	0	10,411
ISCAP unamortized premium	11,285	0	11,285
Deferred revenue:			
Succeeding year property tax	1,938,055	0	1,938,055
Other	5,800	0	5,800
Unearned revenue	0	1,564	1,564
Long-term liabilities(Note 7):			
Portion due within one year:			
Bus lease payable	10,802	0	10,802
Early retirement payable	5,656	0	5,656
Portion due after one year:			
Bus lease payable	11,239	0	11,239
Early retirement payable	27,339	0	27,339
Total Liabilities	3,547,429	8,789	3,556,218
Net Assets			
Investment in capital assets, net of related debt	1,083,903	37,205	1,121,108
Restricted for:			
Talented and gifted	26,955	0	26,955
Salary improvement program	260	0	260
Debt service	636	0	636
Management levy	29,694	0	29,694
Physical plant and equipment levy	282	0	282
Captial projects	270,058	0	270,058
Other special revenue purposes	177,371	0	177,371
Unrestricted	608,727	2,452	611,179
Total Net Assets	\$ 2,197,886	39,657	2,237,543

SEE NOTES TO FINANCIAL STATEMENTS.

MONTEZUMA COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
JUNE 30,
2006

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		Total
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business-Type Activities	
Functions/Programs						
Governmental activities:						
Instruction:						
Regular instruction	\$ 2,147,393	250,295	337,545	(1,559,553)	0	(1,559,553)
Special instruction	756,251	49,943	27,807	(678,501)	0	(678,501)
Other instruction	573,994	339,694	0	(234,300)	0	(234,300)
	<u>3,477,638</u>	<u>639,932</u>	<u>365,352</u>	<u>(2,472,354)</u>	<u>0</u>	<u>(2,472,354)</u>
Support services:						
Student services	29,770	0	0	(29,770)	0	(29,770)
Instructional staff services	97,900	0	0	(97,900)	0	(97,900)
Administration services	432,952	0	0	(432,952)	0	(432,952)
Operation and maintenance of plant services	357,844	0	0	(357,844)	0	(357,844)
Transportation services	182,825	881	0	(181,944)	0	(181,944)
	<u>1,101,291</u>	<u>881</u>	<u>0</u>	<u>(1,100,410)</u>	<u>0</u>	<u>(1,100,410)</u>
Other expenditures:						
Facilities acquisitions	98,605	0	0	(98,605)	0	(98,605)
Long-term debt interest	2,118	0	0	(2,118)	0	(2,118)
AEA flowthrough	162,058	0	162,058	0	0	0
Depreciation(unallocated)*	75,097	0	0	(75,097)	0	(75,097)
	<u>337,878</u>	<u>0</u>	<u>162,058</u>	<u>(175,820)</u>	<u>0</u>	<u>(175,820)</u>
Total governmental activities	4,916,807	640,813	527,410	(3,748,584)	0	(3,748,584)
Business-Type activities:						
Non-instructional programs:						
Nutrition services	240,746	128,063	106,566	0	(6,117)	(6,117)
Total business-type activities	<u>240,746</u>	<u>128,063</u>	<u>106,566</u>	<u>0</u>	<u>(6,117)</u>	<u>(6,117)</u>
Total	<u>\$ 5,157,553</u>	<u>768,876</u>	<u>633,976</u>	<u>(3,748,584)</u>	<u>(6,117)</u>	<u>(3,754,701)</u>
General Revenues and Transfers:						
Property tax levied for:						
General purposes				\$ 2,031,471	0	2,031,471
Capital outlay				52,758	0	52,758
Debt service				566	0	566
Local option sales and services tax				323,680	0	323,680
Unrestricted state grants				1,779,523	0	1,779,523
Unrestricted investment earnings				52,967	95	53,062
Other				52,334	8,550	60,884
Total general revenues				<u>4,293,299</u>	<u>8,645</u>	<u>4,301,944</u>
Change in net assets before capital contributions				544,715	2,528	547,243
Capital contributions				<u>0</u>	<u>31,611</u>	<u>31,611</u>
Changes in net assets				544,715	34,139	578,854
Net assets beginning of year				<u>1,653,171</u>	<u>5,518</u>	<u>1,658,689</u>
Net assets end of year				<u>\$ 2,197,886</u>	<u>39,657</u>	<u>2,237,543</u>

* This amount excludes the depreciation that is included in the direct expense of various programs.

SEE NOTES TO FINANCIAL STATEMENTS.

MONTEZUMA COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2006

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
Assets				
Cash and pooled investments:				
ISCAP(Note 4)	\$ 1,112,313	0	0	1,112,313
Other	778,378	241,572	245,858	1,265,808
Receivables:				
Property tax				
Delinquent	26,739	0	2,381	29,120
Succeeding year	1,742,250	0	195,805	1,938,055
Income surtax	189,500	0	0	189,500
Interfund	2,700	0	0	2,700
Accrued interest:				
ISCAP(Note 4)	11,300	0	0	11,300
Due from other governments	56,489	58,827	0	115,316
Total Assets	\$ 3,919,669	300,399	444,044	4,664,112
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ 9,018	8,300	4,561	21,879
Interfund payable	0	0	2,700	2,700
Due to other governments	4,110	0	0	4,110
Salaries and benefits payable	391,751	0	0	391,751
ISCAP warrants payable(Note 4)	1,109,000	0	0	1,109,000
ISCAP interest payable(Note 4)	10,411	0	0	10,411
ISCAP unamortized premium	11,285	0	0	11,285
Deferred revenue:				
Succeeding year property tax	1,742,250	0	195,805	1,938,055
Income surtax	189,500	0	0	189,500
Other	5,800	0	0	5,800
Total liabilities	3,473,125	8,300	203,066	3,684,491
Fund balances:				
Reserved for:				
Talented and gifted	26,955	0	0	26,955
Salary improvement program	260	0	0	260
Debt service	0	0	636	636
Unreserved	419,329	292,099	240,342	951,770
Total fund balances	446,544	292,099	240,978	979,621
Total Liabilities and Fund Balances	\$ 3,919,669	300,399	444,044	4,664,112

SEE NOTES TO FINANCIAL STATEMENTS.

MONTEZUMA COMMUNITY SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2006

Total fund balances of governmental funds (page 15)	\$ 979,621
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	1,083,903
Accounts receivable income surtax, are not yet available to finance expenditures of the current fiscal period.	189,500
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(102)
Long-term liabilities, including revenue bonds payable, revenue bonds payable, note payable and early retirement payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	(55,036)
Net assets of governmental activities (page 13)	<u><u>\$ 2,197,886</u></u>

SEE NOTES TO FINANCIAL STATEMENTS.

MONTEZUMA COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2006

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
REVENUES:				
Local sources:				
Local tax	\$ 1,893,513	323,680	153,335	2,370,528
Tuition	300,238	0	0	300,238
Other	125,553	6,856	283,802	416,211
State sources	2,147,659	0	118	2,147,777
Federal sources	143,666	0	0	143,666
Total revenues	4,610,629	330,536	437,255	5,378,420
EXPENDITURES:				
Current:				
Instruction:				
Regular instruction	2,134,679	0	9,384	2,144,063
Special instruction	756,251	0	0	756,251
Other instruction	331,561	0	242,433	573,994
	3,222,491	0	251,817	3,474,308
Support services:				
Student services	31,655	0	0	31,655
Instructional staff services	97,900	0	0	97,900
Administration services	431,515	0	24,358	455,873
Operation and maintenance of plant services	304,288	0	70,786	375,074
Transportation services	153,366	0	67,020	220,386
	1,018,724	0	162,164	1,180,888
Other expenditures:				
Facilities acquisitions	0	243,510	0	243,510
Long-term debt:				
Principal	0	0	57,126	57,126
Interest	0	0	2,218	2,218
AEA flowthrough	162,058	0	0	162,058
	162,058	243,510	59,344	464,912
Total expenditures	4,403,273	243,510	473,325	5,120,108
Excess(deficiency) of revenues over(under) expenditures	207,356	87,026	(36,070)	258,312
Other financing sources(uses):				
Transfer in	0	0	171,661	171,661
Transfer out	(8,550)	(22,691)	(101,542)	(132,783)
Compensation for loss of capital assets	2,811	0	0	2,811
Sale of equipment	5,686	0	0	5,686
Total other financing sources(uses)	(53)	(22,691)	70,119	47,375
Net change in fund balances	207,303	64,335	34,049	305,687
Fund balance beginning of year	239,241	227,764	206,929	673,934
Fund balance end of year	\$ 446,544	292,099	240,978	979,621

SEE NOTES TO FINANCIAL STATEMENTS.

MONTEZUMA COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 YEAR ENDED JUNE 30, 2006

Net change in fund balances - total governmental funds (page 17) \$ 305,687

*Amounts reported for governmental activities in the
 statement of activities are different because:*

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:

Depreciation expense	\$ (114,258)	
Capital outlay expenditures	252,372	
Loss on sale of equipment	<u>(2,220)</u>	135,894

Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds. 37,947

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Early Retirement 7,961

Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets. 57,126

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due. 100

Changes in net assets of governmental activities (page 14) \$ 544,715

SEE NOTES TO FINANCIAL STATEMENTS.

MONTEZUMA COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2006

	<u>School</u> <u>Nutrition</u>
Assets	
Cash and pooled investments	\$ 3,206
Inventories	8,035
Capital assets, net of accumulated depreciation (Note 6)	<u>37,205</u>
Total assets	<u>48,446</u>
Liabilities	
Accounts payable	67
Salaries and benefits payable	7,158
Unearned revenues	<u>1,564</u>
Total liabilities	<u>8,789</u>
Net Assets	
Invested in capital assets, net of related debt	37,205
Unrestricted	<u>2,452</u>
Total net assets	<u><u>\$ 39,657</u></u>

SEE NOTES TO FINANCIAL STATEMENTS.

MONTEZUMA COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2006

	<u>School Nutrition</u>
OPERATING REVENUE:	
Local sources:	
Charges for services	\$ 128,063
TOTAL OPERATING REVENUES	<u>128,063</u>
OPERATING EXPENSES:	
Non-instructional programs:	
Food service operations:	
Salaries	73,430
Benefits	28,648
Services	1,687
Supplies	133,116
Depreciation	3,865
TOTAL OPERATING EXPENSES	<u>240,746</u>
OPERATING LOSS	<u>(112,683)</u>
NON-OPERATING REVENUES:	
State sources	2,618
Federal sources	103,948
Interest income	95
TOTAL NON-OPERATING REVENUES	<u>106,661</u>
Net loss before other financing sources	(6,022)
Other financing sources	
Capital contributions	31,611
Transfer in	8,550
Total other financing sources	<u>40,161</u>
Changes in net assets	34,139
Net assets beginning of year	<u>5,518</u>
Net assets end of year	<u>\$ 39,657</u>

SEE NOTES TO FINANCIAL STATEMENTS.

MONTEZUMA COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2006

	<u>School Nutrition</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 127,201
Cash received from miscellaneous operating activities	1,572
Cash payments to employees for services	(101,028)
Cash payments to suppliers for goods or services	<u>(123,131)</u>
Net cash used in operating activities	<u>(95,386)</u>
Cash flows from non-capital financing activities:	
Transfer from General Fund	8,550
State grants received	2,618
Federal grants received	<u>87,497</u>
Net cash provided by non-capital financing activities	<u>98,665</u>
Cash flows from capital and other financing activities:	
Purchase of capital assets	<u>(1,431)</u>
Cash flows from investing activities:	
Interest on investments	<u>95</u>
Net increase in cash and cash equivalents	1,943
Cash and cash equivalents at beginning of year	<u>1,263</u>
Cash and cash equivalents at end of year	<u>\$ 3,206</u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (112,683)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	16,451
Depreciation	3,865
Increase in inventories	(4,846)
Increase in accounts payable	67
Increase in salaries and benefits payable	1,050
Increase in unearned revenue	710
Net cash used in operating activities	<u>\$ (95,386)</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:	
Current assets:	
Cash and pooled investments	<u>\$ 3,206</u>

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2006, the District received Federal commodities valued at \$16,451.

During the year ended June 30, 2006, the District received capital contributions from the Capital Projects Fund and the Special Revenue, Physical Plant and Equipment Levy, valued at \$26,340 and \$5,271, respectively.

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

MONTEZUMA COMMUNITY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2006

	<u>Agency</u>
Assets	
Cash and pooled investments	<u>\$ 8,312</u>
Liabilities	
Account payable	\$ 125
Due to other groups	<u>8,187</u>
Total Liabilities	<u>\$ 8,312</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

MONTEZUMA COMMUNITY SCHOOL DISTRICT
 STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
 FIDUCIARY FUNDS
 YEAR ENDED JUNE 30, 2006

	Private Purpose Trust Scholarship
Additions	\$ 0
Deductions	0
Income before other financing uses	0
Other financing uses:	
Transfer out	(47,428)
Change in net assets	(47,428)
Net assets beginning of year	47,428
Net assets end of year	\$ 0

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

MONTEZUMA COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

(1) Summary of Significant Accounting Policies

The Montezuma Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. The geographic area served includes the City of Montezuma, Iowa, and the predominate agricultural territory in a portion of Poweshiek County. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Montezuma Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Montezuma Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Poweshiek County Assessor's Conference Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net assets use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net asset consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental fund:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The District's proprietary fund is the School Nutrition Fund, which is used to account for the District's food service operations.

The District also reports fiduciary funds which focus on net assets and changes in net assets. The District's fiduciary funds include the following:

The Private Purpose Trust Fund is used to account for assets held by the District under trust agreements, which require income earned to be used to benefit individuals through scholarship awards.

The Agency Fund is used to account for assets held by the District as an agent for individuals, private organizations, and other governments. The Agency Fund is custodial in nature, assets equal liabilities, and does not involve measurement of results of operation.

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Balances

The following accounting policies are followed in preparing the balance sheet:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in the governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2004 assessed property valuations; is for the tax accrual period July 1, 2005 through June 30, 2006 and

reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2005.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, machinery and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	\$ 3,000
Buildings	3,000
Land improvements	3,000
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	3,000

Property, machinery and equipment are depreciated using the straight line method of depreciation over the following estimated useful lives:

Asset Class	Estimated Useful Life (In Years)
Buildings	30 years
Land improvements	15 years
Machinery and equipment	5-12 years

Salaries and Benefits Payable - Payroll and related expenditures for annual contracts corresponding to the current school year, which is payable in July and August, have been accrued as liabilities.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period

or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Unearned Revenues - Unearned revenues are monies collected for lunches that have not yet been served. The lunch account balances will either be reimbursed or served lunches. The lunch account balances are reflected on the Statement of Net Assets in the Proprietary, School Nutrition Fund.

Long-term Liabilities - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Balances - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

(2) **Cash and Pooled Investments**

The District's deposits at June 30, 2006 were entirely covered by federal depository insurance or State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The District's investments at June 30, 2006, are as follows:

Type	Amortized Cost
Diversified Portfolio	<u>\$ 1,058,803</u>

The investments are valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Credit risk. The investments in the Iowa Schools Joint Investment Trust were both rated Aaa by Moody's Investors Service.

(3) Transfers

The detail of transfers for the year ended June 30, 2006 is as follows:

Transfer to	Transfer from	Amount
Debt Service	Capital Projects	\$ 22,691
School Nutrition	General	8,550
Special Revenue, Expendable Trust	Non-expendable Trust	47,428
Special Revenue, Physical Plant & Equipment Levy	Debt Service	25,736
Special Revenue, Physical Plant & Equipment Levy	Special Revenue, Student Activity	2,500
		<u>\$ 106,905</u>

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

(4) Due From and Due to Other Funds

The detail of interfund receivables and payables at June 30, 2006 is as follows:

Receivable Fund	Payable Fund	Amount
General	Special Revenue, Physical Plant & Equipment Levy	<u>\$ 2,700</u>

(5) Iowa School Cash Anticipation Program (ISCAP)

The District participates in the Iowa School Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is

based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity, and monthly statements are provided regarding their cash balance, interest earnings and amounts available for withdrawal for each outstanding series of warrants. Bankers Trust Co. is the trustee for the program. A summary of the District's participation in ISCAP at June 30, 2006 is as follows:

Series	Warrant Date	Final Warrant Maturity	Investments	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable
2005-06A	6/28/05	6/28/06	\$ 2,009	0	0	0
2005-06B	1/26/06	1/26/07	585,035	11,137	583,000	10,277
2006-07A	6/28/06	6/28/07	525,269	163	526,000	134
Total			<u>\$ 1,112,313</u>	<u>11,300</u>	<u>1,109,000</u>	<u>10,411</u>

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts. In addition, the District must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. ISCAP advance activity in the General Fund for the year ended June 30, 2006 is as follows:

Series	Balance Beginning of Year	Advances Received	Advances Repaid	Balance End of Year
2005-06A	\$ 0	200,000	200,000	0
2005-06B	0	275,000	275,000	0
Total	<u>\$ 0</u>	<u>475,000</u>	<u>475,000</u>	<u>0</u>

The warrants bear interest and the available proceeds of the warrants are invested at the interest rates shown below:

Series	Interest Rates on Warrants	Interest Rates on Investments
2005-06A	4.000%	3.903%
2005-06B	4.500%	4.772%
2006-07A	4.500%	5.676%

(6) Capital Assets

Capital assets activity for the year ended June 30, 2006 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business-type activities:				
Machinery and equipment	\$ 94,998	33,042	9,065	118,975
Less accumulated depreciation	86,970	3,865	9,065	81,770
Business-type activities capital assets, net	<u>\$ 8,028</u>	<u>29,177</u>	<u>0</u>	<u>37,205</u>

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 52,500	0	0	52,500
Construction in progress	15,168	0	15,168	0
Total capital assets not being depreciated	67,668	0	15,168	52,500
Capital assets being depreciated:				
Buildings	3,063,841	155,783	0	3,219,624
Land improvements	87,214	4,290	0	91,504
Machinery and equipment	597,815	107,467	51,239	654,043
Total capital assets being depreciated	3,748,870	267,540	51,239	3,965,171
Less accumulated depreciation for:				
Buildings	2,291,520	70,237	0	2,361,757
Land improvements	46,314	4,860	0	51,174
Machinery and equipment	530,695	39,161	49,019	520,837
Total accumulated depreciation	2,868,529	114,258	49,019	2,933,768
Total capital assets being depreciated, net	880,341	153,282	2,220	1,031,403
Governmental activities capital assets, net	\$ 948,009	153,282	17,388	1,083,903

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	
Regular	\$ 7,521
Support services:	
Administration	3,440
Operation and maintenance of plant	6,611
Transportation	21,589
	39,161
Unallocated depreciation	75,097
Total governmental activities depreciation expense	\$ 114,258
Business-type activities:	
Food services	\$ 3,865

(7) Long-Term Liabilities

A summary of changes in long-term debt for the year ended June 30, 2006 is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
Note payable	\$ 21,491	0	21,491	0	0
Early retirement	40,956	0	7,961	32,995	5,656
Bus lease	32,422	0	10,381	22,041	10,802
Tractor lease	3,000	0	3,000	0	0
Track loan	22,254	0	22,254	0	0
Total	\$ 120,123	0	65,087	55,036	16,458

Early Retirement

The District offers a voluntary early retirement plan to its certified employees. Eligible employees must be at least age fifty-five and must have completed ten years of continuous service to the District. Employees must complete an application, which is subject to approval by the Board of Education. Early retirement benefits paid during the year ended June 30, 2006, totaled \$7,961. A liability has been recorded in the Statement of Net Assets representing the District's commitment to fund non-current early retirement.

Bus Lease Payable

During the year ended June 30, 2003 the District entered into a lease for a new school bus. This lease is payable from the Capital Projects Fund. Details of the indebtedness are as follows:

Year ended June 30,	Bus lease April 21, 2003			
	Interest Rate	Principal	Interest	Total
2007	4.05 %	\$ 10,802	893	11,695
2008	4.05	11,239	455	11,694
Total		\$ 22,041	1,348	23,389

(8) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2006, 2005 and 2004. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2006, 2005 and 2004 were \$150,304, \$148,542 and \$145,508 respectively, equal to the required contributions for each year.

(9) Risk Management

The District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(10) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$162,058 for the year ended June 30, 2006 and is recorded in the General Fund by making a memorandum adjusting entry to the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

MONTEZUMA COMMUNITY SCHOOL DISTRICT
BUDGETARY COMPARISON OF REVENUES, EXPENDITURES AND
CHANGES IN BALANCES -
BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS
AND PROPRIETARY FUNDS
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2006

	Governmental Funds Actual	Proprietary Fund Actual	Total Actual	Budgeted Amounts		Final to Actual Variance
				Original	Final	
Revenues:						
Local sources	\$ 3,086,977	128,158	3,215,135	3,083,214	3,083,214	131,921
State sources	2,147,777	2,618	2,150,395	2,166,916	2,166,916	(16,521)
Federal sources	143,666	103,948	247,614	197,000	197,000	50,614
Total revenues	5,378,420	234,724	5,613,144	5,447,130	5,447,130	166,014
Expenditures:						
Instruction	3,474,308	0	3,474,308	3,723,000	3,723,000	248,692
Support services	1,180,888	0	1,180,888	1,292,000	1,392,000	211,112
Non-instructional programs	0	240,746	240,746	218,475	343,475	102,729
Other expenditures	464,912	0	464,912	724,860	824,860	359,948
Total expenditures	5,120,108	240,746	5,360,854	5,958,335	6,283,335	922,481
Excess(deficiency) of revenues over(under) expenditures	258,312	(6,022)	252,290	(511,205)	(836,205)	1,088,495
Other financing sources, net	47,375	40,161	87,536	0	0	87,536
Excess(deficiency) of revenues and other financing sources over(under) expenditures	305,687	34,139	339,826	(511,205)	(836,205)	1,176,031
Balance beginning of year	673,934	5,518	679,452	996,922	996,922	(317,470)
Balance end of year	\$ 979,621	39,657	1,019,278	485,717	160,717	858,561

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

MONTEZUMA COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2006

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standard Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except Private-Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis. Encumbrances are not recognized on the GAAP basis budget and appropriations lapse at year end.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted one budget amendment increasing budgeted expenditures by \$325,000.

OTHER SUPPLEMENTARY INFORMATION

MONTEZUMA COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR SPECIAL REVENUE FUNDS
 JUNE 30, 2006

	Special Revenue Funds						Total Nonmajor Governmental Funds
	Manage- ment Levy	Physical Plant & Equipment Levy	Student Activity	Expendable Trust	Total Special Revenue	Debt Service	
Assets							
Cash and pooled investments	\$ 61,130	2,160	133,833	48,099	245,222	636	245,858
Receivables:							
Property tax:							
Current year delinquent	1,559	822	0	0	2,381	0	2,381
Succeeding year	140,000	55,805	0	0	195,805	0	195,805
Total Assets	\$ 202,689	58,787	133,833	48,099	443,408	636	444,044
Liabilities and Fund Balances							
Liabilities:							
Accounts payable	\$ 0	0	4,561	0	4,561	0	4,561
Interfund payable	0	2,700	0	0	2,700	0	2,700
Deferred revenue:							
Succeeding year property tax	140,000	55,805	0	0	195,805	0	195,805
	140,000	58,505	4,561	0	203,066	0	203,066
Fund balances:							
Reserved:							
Debt service	0	0	0	0	0	636	636
Unreserved	62,689	282	129,272	48,099	240,342	0	240,342
Total fund balances	62,689	282	129,272	48,099	240,342	636	240,978
Total Liabilities and Fund Balances	\$ 202,689	58,787	133,833	48,099	443,408	636	444,044

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

MONTEZUMA COMMUNITY SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 OTHER NONMAJOR GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2006

	Special Revenue Funds					Total	
	Manage- ment Levy	Physical Plant and Equipment Levy	Student Activity	Expendable Trust	Total Special Revenue Funds	Debt Service	Other Nonmajor Governmental Funds
REVENUES:							
Local sources:							
Local tax	\$ 100,011	52,758	0	0	152,769	566	153,335
Other	8,529	70	272,477	2,171	283,247	555	283,802
State sources	77	41	0	0	118	0	118
TOTAL REVENUES	108,617	52,869	272,477	2,171	436,134	1,121	437,255
EXPENDITURES:							
Current:							
Instruction:							
Regular instruction	7,384	0	0	2,000	9,384	0	9,384
Other instruction	0	0	242,433	0	242,433	0	242,433
Support services:							
Administration services	24,358	0	0	0	24,358	0	24,358
Operation and maintenance of plant services	29,559	41,227	0	0	70,786	0	70,786
Transportation services	8,073	58,947	0	0	67,020	0	67,020
Other expenditures:							
Long-term debt:							
Principal	0	0	0	0	0	57,126	57,126
Interest	0	0	0	0	0	2,218	2,218
TOTAL EXPENDITURES	69,374	100,174	242,433	2,000	413,981	59,344	473,325
Excess(deficiency) of revenues over(under) expenditures	39,243	(47,305)	30,044	171	22,153	(58,223)	(36,070)
OTHER FINANCING SOURCES(USES):							
Transfer in	0	64,889	0	47,428	112,317	59,344	171,661
Transfer out	0	(36,653)	(2,500)	0	(39,153)	(62,389)	(101,542)
TOTAL OTHER FINANCING SOURCES(USES)	0	28,236	(2,500)	47,428	73,164	(3,045)	70,119
Excess(deficiency) of revenues and other other financing sources over(under) expenditures and other financing uses	39,243	(19,069)	27,544	47,599	95,317	(61,268)	34,049
FUND BALANCES BEGINNING OF YEAR	23,446	19,351	101,728	500	145,025	61,904	206,929
FUND BALANCES END OF YEAR	\$ 62,689	282	129,272	48,099	240,342	636	240,978

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

MONTEZUMA COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2006

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Graduated classes	\$ 1,055	0	1,055	0
Class of 2005	62	0	62	0
Class of 2006	1,653	1,022	2,416	259
Class of 2007	1,470	13,096	11,497	3,069
Class of 2008	12	1,154	347	819
Class of 2009	20	115	0	135
Class of 2010	10	109	0	119
Class of 2011	0	119	0	119
5th grade field trips	395	0	395	0
Elementary media center	1,599	3,342	4,941	0
Nathan Bass memorial	130	0	130	0
JH heritage trip	200	20,265	100	20,365
Curtain callers	1,517	5,360	6,621	256
Drill team	561	109	0	670
Instrumental music	323	2,999	2,569	753
Vocal music	4,996	3,421	2,809	5,608
Band uniforms	3,640	1,148	0	4,788
Track maintenance	5,000	0	5,000	0
Athletics	22,748	69,671	61,297	31,122
School fitness program	1,831	1,376	3,207	0
Football	1	3,480	2,908	573
Baseball	514	4,359	3,938	935
Golf team	432	1,039	716	755
Boys basketball	1,125	5,260	2,641	3,744
Girls BB camp	8,160	3,531	5,295	6,396
Volleyball	297	5,421	3,493	2,225
Wrestling	3,666	2,371	3,502	2,535
German club	3,186	327	350	3,163
Good news program	514	459	363	610
Torch club	168	239	264	143
FFA	10,278	54,667	51,726	13,219
FCCLA	627	7,064	6,682	1,009
Student pop	1,793	9,896	11,442	247
JH student council	634	1,318	1,592	360
SH student council	346	1,659	(3,726)	5,731
Cheerleaders	905	3,844	3,774	975
Technology club	194	0	194	0
Spanish club	1,112	13,331	6,647	7,796
Special projects	3,683	711	4,394	0
Summer recreation	2,604	3,122	3,679	2,047
Publications	5,225	13,371	15,957	2,639
Elementary activities	4,981	5,684	4,577	6,088
Interest	4,061	8,018	12,079	0
Total	\$ 101,728	272,477	244,933	129,272

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

MONTEZUMA COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES
 AGENCY FUND
 YEAR ENDED JUNE 30, 2006

	Beginning Balance	Increases	Decreases	Ending Balance
JR. HIGH AUDITORIUM				
Assets:				
Cash and other investments	\$ 1,500	0	1,500	0
Liabilities:				
Due to other groups	\$ 1,500	0	1,500	0
FLOWER FUND				
Assets:				
Cash and other investments	\$ 1,327	560	238	1,649
Liabilities:				
Due to other groups	\$ 1,327	560	238	1,649
COFFEE FUND				
Assets:				
Cash and other investments	\$ 5,601	6,401	5,339	6,663
Liabilities:				
Accounts payable	\$ 0	125	0	125
Due to other groups	5,601	6,276	5,339	6,538
	\$ 5,601	6,401	5,339	6,663
TOTAL				
Cash and other investments	\$ 8,428	6,961	7,077	8,312
Liabilities:				
Accounts payable	\$ 0	125	0	125
Due to other groups	8,428	6,836	7,077	8,187
	\$ 8,428	6,961	7,077	8,312

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

MONTEZUMA COMMUNITY SCHOOL DISTRICT
SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION
ALL GOVERNMENTAL FUND TYPES
FOR THE LAST FOUR YEARS

Modified Accrual Basis				
Years Ended June 30				
	2006	2005	2004	2003
Revenues:				
Local sources:				
Local tax	\$ 2,370,528	2,467,051	1,859,848	1,829,992
Tuition	300,238	356,290	335,115	337,631
Other	416,211	272,098	723,866	666,983
Intermediate sources	0	4,961	0	0
State sources	2,147,777	2,130,751	1,984,365	1,954,428
Federal sources	143,666	132,406	125,043	246,883
Total	<u>\$ 5,378,420</u>	<u>5,363,557</u>	<u>5,028,237</u>	<u>5,035,917</u>
Expenditures:				
Instruction:				
Regular instruction	\$ 2,144,063	1,939,282	1,856,224	2,020,555
Special instruction	756,251	817,580	820,977	518,519
Other instruction	573,994	579,420	593,525	749,800
Support services:				
Student services	31,655	61,655	60,648	79,032
Instructional staff services	97,900	127,590	125,909	92,326
Administration services	455,873	522,741	495,998	469,172
Operation and maintenance of plant services	375,074	293,112	340,600	321,200
Transportation services	220,386	156,137	149,656	163,941
Other expenditures:				
Facilities acquisition	243,510	127,630	65,456	21,480
Long-term debt:				
Principal	57,126	213,784	145,000	140,000
Interest	2,218	6,922	13,278	19,438
AEA flowthrough	162,058	158,921	159,207	158,680
Total	<u>\$ 5,120,108</u>	<u>5,004,774</u>	<u>4,826,478</u>	<u>4,754,143</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

117 West 3rd Street North, Newton, Iowa 50208-3040

Telephone (641) 792-1910

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

To the Board of Education of the
Montezuma Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Montezuma Community School District as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated August 8, 2006. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Montezuma Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item I-A-06 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Montezuma Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Members American Institute & Iowa Society of Certified Public Accountants

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and citizens of Montezuma Community School District and other parties to Montezuma Community School District may report including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Montezuma Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.


NOLTE, CORNMAN & JOHNSON, P.C.

August 8, 2006

MONTEZUMA COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2006

Part I: Findings Related to the Basic Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

- I-A-06 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the cash receipt listing, bank deposits and the posting of the cash receipts to the cash receipts journal were all done by the same person.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However the District should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will investigate available alternatives and implement as soon as possible.

Conclusion - Response accepted.

- I-B-06 Activity Fund Invoices - We noted during our audit that expenditures made did not always have invoices to support the payment.

Recommendation - The District should present the bills for payment to the Board for proper approval in accordance with the district policy of payment of goods. The District should also review their procedures that are in place to ensure that all bills are supported, approved and paid from an invoice with a purchase order. The District should adopt processes and procedures to use when an invoice may not be available, such as requiring additional approval or requiring support document other than an invoice.

Response - Procedures will be reviewed with staff members to ensure purchasing guidelines are adhered to.

Conclusion - Response accepted.

- I-C-06 Clothing Purchased for Coaches - We noted during our audit that the District purchased clothing for coaches out of the Special Revenue, Student Activity Fund.

Recommendation - Article III, Section 31 of the Constitution of the State of Iowa requires that public funds may only be spent for the public benefit. Since Student Activity Funds are "public funds" the District must determine the propriety and document the public purpose and public benefit to be derived. The District should establish a policy to preclude purchases of personal clothing from public funds, and/or define the exceptions, if any, including the requirement for Board consideration, documentation of public purpose and approval.

The District may wish to refrain from allowing public funds to be used to purchase personal items of clothing under any circumstances since this establishes a precedent which may be difficult to justify and/or administer fairly and consistently among employees and student groups.

A better alternative may be to ask the Booster Club or other affiliated organization to provide clothing such as team jackets for coaches, to District employees in lieu of using public funds.

Response - District coaching and administrative staff have been made aware that clothing purchases are prohibited from district funds. More effort will be made to reinforce this policy by informing those employees affected.

Conclusion - Response accepted.

MONTEZUMA COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2006

Part II: Other Findings Related to Statutory Reporting

- II-A-06 Certified Budget - District expenditures for the year ended June 30, 2006, did not exceed the amount budgeted.
- II-B-06 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979, except as noted in I-C-06.
- II-C-06 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.
- II-D-06 Business Transactions - Business transactions between the District and District officials were noted as follows:

Name, Title and Business Connection	Transaction Description	Amount
Greg Long, Board Member	Clean sewing machines	\$293
Debra Phillips, Spouse of Board Member	Umpire	\$335
Stacey Hoksbergen, Daughter of Board Member	Umpire	\$360
Pete Ross, Board Member Son owns Ross Lawn Service	Purchases services	\$348

In accordance with Chapter 279.7A of the Code of Iowa, the above transaction with the Board Member does not appear to represent a conflict of interest.

In accordance with the Attorney General's opinion dated November 9, 1976, the above transactions with the family members of the Board Members does not appear to represent a conflict of interest.

- II-E-06 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- II-F-06 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board. However, we noted that the minutes were not always published in a timely manner.

Recommendation - The District should publish the minutes within two weeks of the Board meeting, as required by 279.35 of the Code of Iowa.

Response - We will comply.

Conclusion - Response accepted.

II-G-06 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.

II-H-06 Deposits and Investments - We noted no instances of non-compliance with the deposits and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy. However, we did note that the District was not receiving the proper interest rate, set by the State Rate Setting Committee, on their Certificate of Deposit.

Recommendation - The District should contact the appropriate bank and rectify the situation.

Response - The certificates in question have been recalculated and interest earning changed to reflect the higher rates of interest.

Conclusion - Response accepted.

II-I-06 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely, and we noted no significant deficiencies in the amounts reported.